LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 1397** HLS 10RS 2690
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 11, 2010 8:11 AM **Author:** ELLINGTON
Dept./Agy.:
Subject: Mineral Production Swap Agreements - Advisory Comm. **Analyst:** Greg Albrecht

MINERALS EG NO IMPACT GF EX See Note
Creates the Mineral Income Advisory Committee

Current law requires the State Treasurer, upon recommendation of the Revenue Estimating Conference and the Joint Legislative Committee on the Budget, to contract with respect to commodity or other swap agreements in order to establish a firm price for all or part of the anticipated mineral production subject to state severance taxes and royalty contracts. All agreements or contracts must be selected through a request for proposal or bid process.

Proposed law adds a Mineral Income Advisory Committee to current law to report any findings and recommendations to the Revenue Estimating Conference by the first of May each year. The Departments of Natural Resources, Revenue, Treasury, and the Division of Administration shall be available to the committee for research relative to mineral revenue contracts.

EXPENDITURES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

The operations of the Advisory Committee created by this bill would entail minimal expenses associated with travel and per diem, likely to be part of existing legislative budgets. Likewise, research by the various agencies that might be requested by the Committee should be part of existing budgeted duties, and given adequate time frames can likely be accomplished with minimal additional expense.

Below is the discussion from the fiscal note on Act 817 of 1999R (SB 1116) as a refresher on the context of the Committee:
The Treasurer has indicated that expenditures in the range of $100,000 to $150,000 will be required for the services of a consultant with expertise in the area of commodity swaps authorized in this legislation. The fees charged by the swap bank would be built into the agreed upon oil price. It would then be the agreed upon oil price net of the bank fee that is utilized for revenue estimating purposes.

In addition, there would likely have to be an appropriation available for the treasurer to make payments to the swap bank in those months when the state has a net obligation to the bank because the market price of oil exceeded the agreed upon price (see discussion below). An appropriation would also have to be available if the right to benefit from potential market price increases above the agreed upon price is to be purchased.

REVENUE EXPLANATION

Below is the discussion from the fiscal note on Act 817 of 1999R (SB 1116) as a refresher on the context of the Committee:
Cash flow swap agreements can be used to reduce the risk associated with a volatile revenue source, in this case mineral severance tax receipts and royalty income. This occurs by the state agreeing to pay to a bank a portion of the monthly mineral revenue collections (collected at the current market price) while the bank agrees to pay the state a monthly amount based on an agreed upon fixed price of oil. Actual payments are the net of these two gross payment obligations. If market oil prices exceed the agreed upon price, the state would pay the difference to the bank from the actual revenue collections for the month. If market oil prices are lower than the agreed upon price, the bank would pay the difference to the state. Over the term of the agreement and for that portion of the mineral revenue stream that is committed to the swap agreement, the state would have a stable revenue stream based upon the agreed upon price.

Note that the state would be protected against market price declines below the agreed upon price and would not benefit from market price increases above the agreed upon price. This is how the stability of the revenue stream is achieved. The state could buy the right to benefit from potential market price increases above the agreed upon price. However, this would involve an upfront expenditure to purchase this right whether or not the right was ever exercised during its term.

Senate — Dual Referral Rules
- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost
- [ ] 13.5.2 >= $500,000 Annual Tax or Fee Change

House
- [ ] 6.8(F) >= $100,000 Annual SGF Cost
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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